

The Financial Management, Behavior and Reports in Non-Profit Sector: A Proposed Framework

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Abstract: This paper aims to provide a proposed framework to financial management, behavior and reporting in NPO sector. First, we reviewed the related literature to point out the current framework and develop a new one, furthermore we reviewed the objectives, information quality's characteristics, constraints and new current statement's structure. Second, we developed the traditional requirement of fundamental financial management such as (Financial Position, Comprehensive Activity, social activity, economic activity, Statement of Cash Flows and Notes). Third, we developed additional financial management tools (social added value and Statement of functional expenses), the proposed framework can improve the comprehensive financial management and behavior function in the NPO sector.

Keywords: Financial management – financial behavior - social added value – NPOs.

1. Introduction

Financial management and reports are a tool to ensure that the NPOs have achieved their - social mission - that was established for. Where through the financial management's reports, the NPO discloses financial resources, expenditures, assets and liabilities. Consequently, the financial management system in these NPOs aims to provide financial statements reflect revenue and expenditure related to the financial management period of these financial statements, which helps stakeholders to take the right decisions [1]. In other words, the financial report's objective is not just determining the outcome from profit or loss as FPOs. Therefore, to achieve this objective of NPO needs to follow financial management policies that help them to maintain their fund-resources and disclose fairly about the financial position. In this sense, financial management's reports are the main source for the financial management information associated with NPOs. In general, it is necessary for the researcher to address the financial statements issued by these sector organizations in terms of the nature, presentation, disclosure and components. Especially with the lack of consistency between practical reality of financial reports in this sector with the traditional financial management practices.

It was observed during the last decade that. The concerns have grown about the Accountability in NPOs especially with the inadequacy of the financial reports and oversight mechanisms after several financial scandals in organizations of this sector in the United States of America [2]. Similarly, in the United Kingdom many of the charities involved in many financial scandals and fraudulent activities, which has resulted to the introduction of the statement of recommended practice (SORP) in 1988. At the national level the same concerns have been appeared, so the researcher in this section attempts to assess the financial report regulation and examine the adequacy of disclosure about the social and economic activity in the Egyptian NPOs.

2. Financial Management Objectives in The NPOs:

The first mission in any Attempt to set or develop a scientific framework service function is identifying the purposes and objectives of this service. And perhaps these objectives change over time, but in each specific period of time these objectives must specify accurately [3] Considering the financial management function in NPOs. The Researcher observed the differences in the financial management function's objectives in NPOs from the Traditional objectives of the financial management function according to financial management theory in a general meaning. In other words, the financial report objective in the NPOs is the provision of useful information to assess the effectiveness of financial-resources usage in achieving the organization's mission. This is basically a social mission. This objective refers to the expansion of the financial report to include the performance measurement function in order to add the social dimension

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to the financial report. [1,4]

After identifying stakeholders' groups and their relationships with the NPOs in the previous chapter. It was necessary to determine their needs from the financial reporting and developing the organizations' objectives as an initial step in the financial report structure's development to overcome the problem of inadequate data and differences in the current financial reporting structure, which does not provide any indicators for the objectives and achievements of the NPO's activities. Where the researcher confirms that the most difficult stage in the development of any financial management standard is identifying the output's objectives. Especially in light of the conflict needs of stakeholders' groups [5].

According to the needs of the financial reports' users in the NPOs is different from the financial reports' users in the FPOs due to the difference of nature, activity and characteristics that characterize these NPOs. Which it effects on the financial statements and reports objectives [6] Meanwhile, the financial statements and reports are considered the final outputs and a reflection of the degree of the comprehensive financial management function quality. And after reviewing a sample of the current financial statements and reports of the NPOs in the Arab Republic of Egypt. The researcher found that these financial reports are not enough to express the NPO's performance from the social and economic side. These financial statements and reports serve the legal requirements only. And do not achieve the desired main objectives.

From a Historical Perspective, the first formal interest with the financial reports in NPOs was in 1980. When the financial management Standards Board (FASB) published the first professional issue about the financial report objectives (FASB, 1980, Statement no.4), these objectives identified as Follows:

- Providing useful information for decision-making to stakeholders and assessing the administration's performance and the extent of their commitment to their responsibilities towards the organization and society.
- Providing information about the economic resources and the existing obligations on those resources and net resources and any changes in it.
- Providing information about the funding sources during the financial period
- Providing information to evaluate the organization's activities and its ability to continue.

Since that time. Several studies have tried to develop the financial reporting objectives in NPOs [2,5,7] Where these studies were focused on two main concerns: (1) achieving the mission, (2) remaining economically viable. In general, the financial reporting objectives should focus on the information that helps fund-resources providers (donors) in decision-making. Concerning the allocation of resources to these organizations because they are the most important group of stakeholders. As well as information about the services and activities carried out by the NPOs and administration's performance [8]. But this argument does not mean that the financial reports information is designed to be useful for donors only. Therefore, the objectives must be designed to provide useful information to all stakeholders' groups. Such as creditors and suppliers who are interested in information about the organization's ability to generate cash flows. In the sense that the resources providers (donors) are interested in the information about the achievements of the organization's operational objectives. However, the governmental authorities concerned with the information about the organization's commitment with laws and regulations [6,9]. As well as the management concerned with the information about their responsibilities, so the researcher can explain the normative objectives of financial reporting in NPOs in a hierarchical scale, started with a general objective and then derives two main objectives, the financial reporting objectives in NPOs flow from the top (general) to the bottom (privatization). And started with the main objective which the provision of useful information to current resource providers (donors) and other users for making-decision about resources allocation for NPOs [10]. Then the focus on the other stakeholders' needs through the provision of information about the services provided by the organization and its ability to continue providing these services. Thus, to achieve this objective it needs to pay attention to the performance information. And how management fulfils its responsibilities as an agent for the NPO's stakeholders. Finally, the objectives focus on the financial information reports models that can be prepared in these organizations to meet these objectives.

It was noted that the reasons for the financial reporting objectives focus on the donors' needs from information, because they are the most important group of stakeholders. At the same time, the information which meets the donor's needs is useful to the other stakeholders' groups' needs, whose have the same basic interest perspective [5,11]. In view of the foregoing, the researcher re-draft/formulate the financial report objectives in the Egyptian NPOs in the light of the Egyptian environment variables as follows:

- Providing information for decision-making bearing in mind the needs of different stakeholder groups
- Providing information about fund-resources, obligations and net assets, in the NPO. In a manner that enables stakeholders to evaluate the NPO's performance during the financial period and determine the NPO's ability to continue providing its services and activities.

- Information about the NPO's efforts to provide programs, services and achievements of its objectives through the periodic measurement of changes in net assets and its nature and justification for this change [10]
- Information about cash flows and its accompanying restrictions during the financial period. And the distinction between flows which change in net assets (wages; monetary donations) and that does not change in net assets (purchase; buildings; machines). And identify incoming and outgoing flows of restricted resources. As well as to determine the relationship between resource inflows and outflows during the financial period.
- Providing information to assess the management's performance and the extent of fulfilling its responsibilities. Where the financial statements show the results of management's responsibility or accountability about the available financial resources.

From the above, the most important objective of the financial reports is providing information about the financial resources and liabilities [8,12]. In order to assess the strengths and weakness points in the CA. And the NPO's ability to continue and grow. In this sense, to achieve the financial report's objectives, accountants should bear in mind several points:

- The information's quality of financial reports: The quality concept, according to the accountant's perspective, related to accuracy, and from the users' perspective, as it is related to effectiveness, and eventually reducing the uncertainty associated with the decisions and this requires a high level of accuracy in the financial management information in the preparation of financial reports, where the financial reports are components should be appropriate to the purposes which prepared for it. [4,9,10]
- The adequacy of financial reports information: financial reports should be prepared in a manner which can provide financial management information for stakeholders, thereby providing a complete picture of the organization's performance and financial position.
- The timing of financial reports presentation: Financial reporting information derives its importance and effectiveness from time as an important element in decision-making by stakeholders.

3. Financial Reporting Approaches in NPOs:

The achievement of financial reports objectives depends on the approach which governs the financial statements and reports. Indeed, there are two approaches in the financial management Thought. The first one is namely the professional approach [13] which relies on professional authorities' issues from financial management standards, statements. And the second one is the Legislative approach which relies on governmental laws and regulations. Given the essential role-played by financial reports to influence and guide stakeholders' decisions [8]. These reports - logically – should be characterized by a high degree of quality from the viewpoint of all stakeholders, whether internal or external. Where these financial reports are affected by the quality approach which was adopted in their preparation. And due to the multiplicity of approaches it is logically to differentiate quality degrees given by these reports, and the Researcher reviews these approaches as follows: [9]

3.1. Professional approach:

Financial Reporting in NPS has become a challenge for professional organizations. Especially with the begging of the financial management standards board interest (FASB) through issuing the conceptual statement No. (4) Of 1980. This addressed the financial reports objectives in NPOs, [14] and then followed by the issuance of several statements for NPOs, such as statement no. (93) Under the title: "recognition of depreciation by NPOs", then statement No. (116), under the title: "financial management for contributions received and contributions made", then statement No. (117), under the title "financial statements of not-for-profit organizations", then statement No. (124), under the title: "financial management for certain investments held by not-for-profit organizations", and finally statement No. (136), under the title: "transfers of assets for a non- -profit organizations or charitable trust that raises or holds contributions for others", likewise the United Kingdom tended to issue the first (SORP) in 1988 where the last modification in 2015. Then many professional organizations and authorities began in many countries to issue private national financial management statements and guidelines/manuals for the preparation and presentation of financial reporting in NPOs.

3.2. Legislative approach:

In the light of the NPOs' nature and with the absence of private ownership [10,15]. The NPOs are considered organizations with a social nature and tend to be public ownership. So, it's normal that the state involving regulating the financial management function and its financial results measurement, which pay the attention of the Egyptian legislator to issue regulation laws for NPOs and the current law "NPOs and institutions," No. (84) Of 2002 and its executive

regulations, moreover the Egyptian Constitution of 2014 included two articles for it.

The researcher preferred the professional approach. Especially with this approach's ability to meet the social needs, not only the legislative needs from financial reports like the legislative approach [6]. And it was observed through analyzing the legislative system associated with the financial report of the Egyptian NPOs' that there is a high degree of flexibility and ambiguity in the articles related to the financial report. Also, this law didn't identify the financial management System or standards or rules that should be followed when NPOs perform the financial management functions. In addition to the lack of identification of the financial statements that should be maintained by the NPOs, in terms of the essence [7], form, content and the requirements of the preparation and presentation of these financial statements and reports which led to the presence of many differences and interpretations by accountants in the financial reports.

4. The NPOs' Characteristics Implications on Financial Management and Reports Quality:

The Financial reports in the Egyptian NPOs are based on law (84) of 2002 and its executive regulations. And this law requires the CA to prepare the revenue/expense account and annual balance sheet only. Then The Central Audit Agency reviews these financial reports. However, in spite of the growing importance of the NPOs' role in the Egyptian society. There isn't so far any private Egyptian financial management standard or specific regulations governing the Preparation and presentation of the financial reports, which could be based on it when the Central Audit Agency auditing the CA's financial reports. Although the annual financial report is an important source of information about the NPO's activities and the key means of communication between the organization and its stakeholders [16]. Nevertheless, the current regulations governing the financial reports draw on the financial management models of the FPOs. Moreover, do not adequately represent the social activities of social NPOs.

The researcher noticed that by reviewing a sample of the financial statements of the NPOs, they were modest and largely lacking minimal regulation, and there are great differences from NPO to another. In addition, the financial statements and reports information in the NPOS, that still controlled by the financial management thought of Economic activities in a professional manner. In addition, the form and content of the financial reports differ from NPO to another [10]. Moreover, in the same way, it is difficult to measure the social benefits, which are the main outputs of the NPOs' activities. Accordingly, these benefits were not disclosed in financial statements and reports in a proper manner. Thus, the main problem with the NPOs is the lack of uniformity in the preparation and presentation of the financial statements method in terms of form [17], content, and regulation as a result of the lack of standards for these NPOs in the field of presentation and disclosure, in addition to the lack of uniformity in the terminology used in the Financial Statements.

From a stakeholder's perspective, the financial statements are the most important sources, which they can rely on in decision-making. In addition, the success of these decisions in achieving their objectives largely depends on the credibility and transparency of these financial statements. But there are many reasons that have raised a debate about the degree of credibility and transparency of these statements such as:

- Financial statements prepared in the light of inappropriate financial management assumptions and principles to the NPO's nature which reduces the financial management disclosure efficiency in serving stakeholders, especially in funding decisions.
- Financial Statements regulation in NPOs depends on the same approach of FPOs. [5]
- Relying on personal judgment when NPO recognizes some items in the financial statements.
- There is a time gap between donors' needs and the reaction of the financial statements to meet them, as a result of the conflict of interest between managers and donors. [9]
- The CA's interest in the legal characteristics more than economic and social characteristics which are desired by stakeholders for its ability to provide the most relevant information in making decisions.

During the last two decades. Financial crises and scandals associated with NPS organizations emerged at the international level. And doubts have been expressed about the financial reports as they're the main source of information upon which decision makers. Thus, several studies have tried to develop the financial reports quality and improve its information. Where the Financial reports in the NPOs are important not only to control the performance in terms of efficiency and effectiveness in the usage of public resources but also to provide information to all stakeholders about the organization's resources and obligations categories, especially with the observed positive relationship between the financial reporting quality and funding size [15] In the same way, there is an impact of the financial management information on the size of donations plus or minus [11]. In this case, the financial reports quality related to its expression's degree about the organization's reality during the financial reporting period. From the above, the researcher addressed the dimensions of financial reports quality in the NPOs from three factors: [18]

- Financial management information quality (the quality of the financial report formulation)
- Financial disclosure management (the quality of the financial report's content)
- The financial report's informative function (the quality of the financial report presentation)

4.1. Financial Management Information Quality.

Different financial management theories share one common element – ‘the importance of the availability of relevant information to managers and stakeholders’, this has been manifested in the development and disclosure of new forms of financial management information [19]. However, these processes of change and reform have emerged in a context where there is a little understanding of, or fundamental debate about, the nature of financial management information in NPOs and how it is made useful for stakeholders. The researcher has attempted in this study to redress this gap.

Despite the lack of a specific concept of the quality in the financial management literature, most of the studies that dealt with financial reports quality in general are supposed to measure the financial reports quality by the financial management information quality [10]. As the financial management information is the core of the financial report. Consequently, the financial reports quality in the NPOs associated with the financial management information quality in these reports and the degree of their credibility and their benefits to users and to be prepared in the light of a set of legal, regulatory, professional and technical standards. These criteria help the financial reports to achieve the planned objectives. Where, [20] provided field evidence about the link between the donation volume and the financial information quality in NPOs. Where the financial report aims to translate and convert the economic events and present them in the form of financial management information. So, this information must be characterized by its quality in order to fulfill the purpose of its preparation. And there are many characteristics which financial management information should be characterized by even to achieve the financial report quality.

In this sense, both the International Financial Management Standards Board and the Egyptian Financial Management Standards identified the financial management information quality's characteristics according to two sets of characteristics (fundamental and enhancing). And based on these characteristics, the researcher can determine the quality of the financial management information for the financial report of the Egyptian NPOs as follows:

4.1.1 Fundamental Qualitative Characteristics:

Several studies have examined the qualitative characteristics of the financial information in the NPS and its effect on the financial report's quality.

Relevance, Financial information must be relevant to the needs of the decision maker. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources [21]. Where financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both. Where Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions. And Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

Faithful representation, financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent [22]. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Where a complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations [23] Simplifying a little, to be reliable, the information in the accounts must be complete (within the bounds of materiality and cost); In addition, a neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasized, de-emphasized or otherwise manipulated to increase the probability that financial information will be received favorably or unfavorably by users. Especially in the absence of the traditional concept of ownership.

And “free from errors” means that there are no errors or omissions in the description of the economic phenomenon, and in the process used to produce the reported information which has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, the financial position represents truthfully financial transactions and other events arising from NPO, in accordance with the criteria for recognition at the date of preparation.

The majority of the financial information in the NPOs is exposed to the risk of their inability to (Faithful representation)

because of the difficulties inherent in the NPOs' activities. Where in some cases, the process of measuring the financial implications of some elements in the financial statements is considered uncertain to the extent that the NPO does not recognize them.

4.1.2. *Enhancing qualitative characteristics:*

Comparability, verifiability, timeliness and Understand ability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

Comparability, information about reports of entity are more useful if it can be compared with similar information about other NPOs for another period or another date. Although consistency, related to comparability, is not the same. Consistency which refers to the use of the same methods for the same items, either from period to period within a report of entity or in a single period across entities. Comparability is the goal and the consistency that helps to achieve this goal. In other words, where judgements are made; they should be consistent each year so the accounts can be meaningfully compared over a number of years.

Verifiability helps users to assure that information faithfully represents the economic phenomena it purports to represent Verifiability which means that different knowledgeable and independent observers could reach consensus, although not necessarily to complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimated to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Understand ability, Accounts are not just prepared following a set of rules, as they should be understandable to the reader, in other words, Classifying, characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand.

Timeliness means having available information to decision-makers in time to be capable of influencing their decisions. Accordingly, the NPO must balance between the feasibility of providing financial statements in a timely manner and the provision of reliable information. Therefore, the NPO tries to balance between relevance and credibility. The dominant considerations are the legally requirement to provide the financial report and meet the needs of decision makers. And the misleading financial reports are often accompanied by a delay in the submission of financial reports.

Based on the above characteristics, the quality of the financial management information in the financial reports of NPOs in general, including the NPOs facing several constraints as follows: [2]

- Balance between cost and benefit: In accordance with the nature of civil societies, the balance between cost and return is not considered a qualitative characteristic as it is a pervasive constraint on the preparation of the financial report, so the expected benefits must to exceed the cost of preparation [4], considering of the civil societies, the benefit and cost estimate assessment process and often it is not expected Society bears the high costs to provide the information.
- Materiality: statistical information affected by its nature and Materiality, where the information of significant Materiality is considered as material, if its omission or misstatement may affect the decisions made by the user depending on the financial statements on the basis of financial statements. Consequently, the Egyptian and international financial management standards didn't specify the way or a certain percentage of the relative importance of where it was due to item size or the estimated error in the light of the particular circumstances of omitting or misrepresentation [9], where it is affects the relative importance of these items on applying of accepted financial management principles.
- The Essence Over Form: to express the information honestly about the process and financial events [7], it is essential that it has been accounted and provided the financial report, according to essence of and economic reality and not merely its legal form, as the essence of operations and financial events in the civil societies is not always identical with the requirements of the law and financial regulations.

4.2. *Disclosure Management Practices in the NPOs:*

First and most importantly, there is a large stream of research examining earnings management in the FPS, where managers use personal evolution in preparing financial reports and in structuring transactions to mislead some stakeholders about the underlying economic performance. However, NPOs differ from FPOs in ways of motives and methods of these practices, where the objective of NPOs is not the maximization of shareholders' wealth as it is for the typical profit-seeking organizations. Where NPOs serve a different set of stakeholders and measure economic and social

performance somewhat differently. Nonetheless, academic research shows that non-profits like FPOs both have the same motives and opportunities to misreport financial information in order to mislead stakeholders. Since NPOs do not focus on earnings as such, the researcher uses the more general term “disclosure management” rather than “earnings management” [16] to describe the opportunistic practices in financial reports with non-profit organizations.

Globally, the financial scandals have shed light on the unique financial report environment of NPOs and how it creates opportunities and motivations for the disclosure management, which in turn can lead to a misallocation of charitable donations and a failure to optimize philanthropic outputs. Where several studies have referred to the manipulation in financial reports through disclosure practices. Indeed, the disclosure management practices phenomenon has spread in the financial report in NPOs and these practices considered as the other face of earning management in FPOs, the disclosure management practices arise as a result of the flexibility of requirements the financial report preparing [15] and the weakness of accountability mechanisms [9]. And these practices include a set of financial management treatments within the general financial management accepted principles (GAAP). But with a different objective. Where earning management aims to maximize profits in the financial report, disclosure management aims to meet the performance criteria needed which meet stakeholders’ expectations. Especially donors through improving performance indicators Even if these practices against the quality of preparing the financial report but it will enhance the Organization's ability to attract the fund-resources and improve the organization’s reputation. [2]

The literature has clarified that the primary financial disclosure management practices seem to be the misclassification of costs and the over- or under-allocation of joint costs to programs and financial management choices related to asset valuation. In addition, [17] confirmed that NPOs have incentives to avoid negative net income because of contractual and reputation pressures. However, also it has greater incentives to avoid high levels of net income to decrease the probability of scrutiny by stakeholders, these reasons prompt NPOs to disclosure management practices. [10]. So, in the absence of good private financial management standards and regulation which gives freedom to NPOs to choose the financial disclosure practices, so gives space for the accountants to the disclosure management practices. Consequently, the Researcher confirms that the real reason for the emergence of the disclosure management practices is the weakness of the comprehensive financial management function in NPOs.

4.3. The Informative Function of Financial Management:

Recently, academic studies about the financial reports in NPOs have been associated with the calls for more accountability and transparency to stakeholders. [7] Where the Informative function of the financial report associated with the disclosure degree as the researcher mentioned before in chapter two. First. Most importantly, the financial report must enable users to understand the organization’s structure and performance through the presentation of activities and achievements [1] Despite the disparity among users in the understanding levels for the nature and content of the financial statements.

In this sense, [19] confirmed that the Organization’s ability to grow is associated with its ability to attract fund-resources by disclosing its achievements in the financial reports. In addition, [12] linked between including performance indicators in the financial reports and its informative ability; to provide better understanding about the organization for the donors with regard to the proper usage of donations and contributions.

Furthermore, [21] indicated that NPOs derive their legitimacy through the financial report ability to perform its informative function. This argument is consistent with the stakeholder theory. Which prompted [23] to link directly between the informative function’s quality of the financial report and accountability. In other words, the link between the financial report and the organization’s achievements leads to enhance the informative function’s ability. As it enables donors to have a better understanding of how the organization has spent their fund-resources. So, it allows accountability by comparing fund-resources to the organization objectives [10].

More precisely, the informative function’s role of the financial reports in NPOs revolves around revenue (cash or in-kind) which considers the largest and most important element in the financial report. Indeed, the fund-resources are varying from affect the financial statements’ quality through the ability of these statements to classify and present these resources in order to reflect the inter-relationships between the variables that form these statements to be useful for the external parties; Whose have a funding relation with the NPO regarding decision-making [7]. And within the disclosure limitations of the financial statements and the degree of its articulation which means to issue the SOFA and financial position on the same financial management basis. So consequently, the financial management information is the final outputs which are disclosed in the financial reports. As the financial management information is defined as each quantitative and non-quantitative information concerning the economic events that are processed and reported by financial management information systems in the financial statements of the financial period. And the financial management information can be classified according to the informative function into two basic themes: [2]

- Financial Statements, which include the basic set of financial statements, which should provide fairly the financial position, the financial performance and cash flows. Where fair representation requires the impact of all operations and other events and circumstances on the recognition of assets, liabilities, revenues and expenses.
- The Financial management reports: Financial management system provides in addition to the financial statements a set of reports that can be classified according to several criteria as follows: (planning reports; operational reports; monitoring reports).

The researcher thinks that the basic requirements which should be used in the preparation process of the financial statements and reports to develop and improve the informative function's role of the financial reporting are as follows:

- Financial reports should be prepared in accordance with the financial management concepts, assumptions and principles generally accepted in financial management theory.
- To ensure the availability of the formal requirements Such as: NPO name, legal form, and Financial Report period.
- The presentation of the financial information should be classified According to logical criteria. Which support performance measurement through the ability of these reports to provide statistical indicators.
- To bear in mind Materiality principle: where disclose in a separate section for each information which consider material from the stakeholders' perspective.

5. The Financial Management Structure in the NPOs:

The Financial Management Thought Divided the financial statements' users into two main groups, namely internal users and external users. Each user or beneficiary group of the financial statements has a special interest in a particular type of financial management information in accordance with the nature of the decision. In addition, to prepare the financial reporting, we must take into account the differences between the financial statement users in terms of their abilities to read, understand and analyze the financial management information. However, this contradiction, the financial management professional authorities faced two alternatives: are accountants should prepare several different sets of financial statements to meet the needs of each user and subject to this alternative means increasing time and cost, or accountants should prepare one set of financial statements with a general purpose to meet users' needs?

The professional authorities have settled on the need to adopt the second alternative where the constituent elements of financial statements are interrelated because they reflect different aspects of the same financial operations or other events, where each statement contains different information, but they cannot serve one purpose or provide all the necessary information to users' needs [4].

In general, the accepted financial management principles require NPOs to adopt the accrual basis based on the going concern assumption, because this basis provides the information's quality that helps the financial report users to assess the organization's performance and according to the American's experience, financial management Standards Board (FASB) requires NPOs in accordance with the standard (117) to prepare three financial statements namely, SOFP, statement of activities and SOCFs. And according to the United Kingdom's experience, financial reporting Requirements and structures in charities are varied according to the size and nature of the charity [8].

According to the Egyptian experience, the NPOs requires according to the law 84 of 2002, to prepare a balance sheet and a statement of income and expenditure only and under these requirements, the financial statements consider as effective methods to achieve the transparency and the financial control and ensure the optimal use of the available fund-resources. But the researcher noticed the inadequacy of the current financial reporting structure in the NPOs, and the lack of private financial management practices and principles in the financial statements preparation which is the most prominent feature of the negative shortcomings in the financial management regulation. In addition, the financial statements structure in the Egyptian Financial Management Standard No. (1) is inappropriate, so the researcher summarized the financial reporting structure in NPOs in accordance with previous international experience:

Table 1: Financial reporting and behavior framework

The state	Authority	Financial management structure	Assets classification
United states of America	Financial Management standards board	Statement of financial position, statement of activities, statement of functional expenses, SOCFs, statement of financial disclosure	Unrestricted temporary Restricted Permanent restricted
United Kingdom	charity Committee (England and Wales)	Statement of financial position, SOFA, SOCFs, notes	Unrestricted temporary Restricted Permanent restricted

Australia	Australian financial management standards Board	Statement of financial position, Income statement, SOCFs, Notes	General assets Unrestricted assets Restricted assets
Asian region	The Asia pacific philanthropy consortium	Statement of financial position, SOFA, SOCFs, notes	Unrestricted assets Restricted assets
South Asian countries	South Asian federation of Accountants	Statement of financial position, SOFA, statement of fund changes, SOCFs, Notes	Unrestricted assets Restricted assets
New Zealand	The New Zealand institution of chartered accountants	statement of financial position, statement of financial performance, SOCF, Statement of changes of owner equity, Notes, statement of services performance	Unrestricted assets Restricted assets
Swiss land	Swiss foundation for financial management and reporting recommendations	statement of financial position, statement of operations, SOCF, Statement of changes of owner equity, notes, Performance Report	Unrestricted assets Restricted assets
china	Ministry of finance	statement of financial position, statement of occupational operations, SOCF	Unrestricted assets Restricted assets

Based on the previous international experience and in accordance with the Egyptian environment variables, the researcher proposes preparing two sets of financial statements. And the adoption with these statements will be according to the fund considerations [9]. And classify the financial statement items according to its restrictions, so the researcher proposes the financial reporting in the NPOs in the following two groups:

5.1. Fundamental financial Management Reports:

The Fundamental financial statements consist of three financial statements in order to meet the minimum legal requirements for NPOs operating in the Arab Republic of Egypt regardless of their size or activities' nature or fund-resources:

5.1.1. Financial Position:

The SOFP considers the main financial statement in any organization's financial report regardless their purpose, activity and objectives, and this statement provides a snapshot of the NPO's assets and liabilities at the end of its financial management year [22]. In this sense, the primary purpose of the SOFP is providing the basic information about assets and liabilities during the financial period. In other words, this statement helps the stakeholders to determine the NPO's ability to survive. In this case, under article 12 of Law No. 84 of 2002 Each NPO must prepare a balance sheet, but the law didn't set a specific formula to govern the preparation of this balance sheet. So, the researcher proposes re-arrange the SOFP elements according to the NPOs nature as follows:

5.1.1.1. Assets:

Assets' classification in the SOFP must be in accordance with the restrictions imposed on them into three main categories [9]. So, the assets should be analyzed within the SOFP according to the category of the asset. This classification consists with Standard No. (117) in USA and (SORP) in the United Kingdom (As in the previous table):

- Unrestricted assets: Reflect the available assets to finance NPO's activities, which the Board of Directors can control its spending areas and thus this type of assets includes the owned assets by the NPO [12] in the previous financial periods. Therefore, these assets don't have any restrictions or conditions on their spending by donors.
- Temporarily restricted assets: temporarily restricted assets are those assets that have temporary restrictions by donors to be met over time or when the NPO fulfils certain conditions [5]. These donations (assets) are not classified as a liability, but within a restricted surplus in the social capital account. And any increase in this asset type spending is classified as a reduction of the balance of net unrestricted assets. And disclose these limitations in the financial report Notes.
- Permanently restricted assets: Reflect the assets provided by donors to the NPO with terms which don't expire over time or perform a particular activity. For instance, the donation with a building to be used as the headquarters of the

NPO with the term which not to be sold in the future. And disclose such restrictions in the Notes. [7]

5.1.1.2. Liabilities:

The Liabilities may not represent an importance in the financial report for the NPOs and accordingly, the Liabilities' presentation in the NPOs do not differ from the requirements of the Egyptian Financial management Standards.

5.1.1.3. Social capital (net assets):

The concept of Capital in NPOs differs from the traditional concept of capital in FPOs as it does not reflect a shareholder rights or tradable ownership, but it reflects the net amount between assets and liabilities [2,9,15], and divided into three categories in accordance with the assets nature as follows:

- Unrestricted net assets: the change in unrestricted assets, (1) represents the amount of increase or decrease resulting from the following: Revenue and expenses and the surplus or deficit which does not represent a change in net restricted assets temporary or permanent. (2) Reclassification from or to other categories of the net assets as a result of restrictions cancellation by donors.
- Temporarily restricted net assets: the change in temporarily restricted assets, (1) the amount of increase or decrease resulting from the contributions or donations or inflows of assets that are subject to time or purpose restrictions by the donors. (2) Reclassification from or to other categories of net assets as a result of restrictions cancellation by donors.
- Net Permanent restricted assets: the change in Permanent restricted assets, (1) The amount of increase or decrease resulting from Contributions or donations or inflows from assets subject to permanent restrictions by the donor. (2) Reclassification from or to other categories of net assets as a result of restrictions by donors.

5.1.2. The Statement of Comprehensive Activity:

The SOCA was invented specifically for NPOs sector's financial management, it is basically an income and expenditure account divided into columns for the different types of funds, and it is useful and helpful in getting a picture of a whole organization. This statement can prove to be a helpful way of understanding the income and expenditure of an organization by showing the whole organization's operations in one statement.

According to the aforementioned, the main purpose of the financial reporting in the NPOs is providing information about revenue, expenditures and transfers between asset's categories as changes in net assets and the extent of their contribution in achieving the NPO's objectives. This statement is designed to show how the NPO has used its resources in furtherance of its objects for the provision of benefit to its beneficiaries. It shows whether there has been a net inflow or outflow of resources, including capital gains and losses on assets, and provides a reconciliation of all movements in the NPO's funds. Where the NPO in Egypt is requires preparing a statement of revenues and expenses in accordance with law 84 of 2002. And the primary purpose of this statement is to provide information about the CA financial resources. In this sense, it considers a quick measure for fund-resources and how the NPO used these funds during the financial period. So, the Researcher proposes replacing the statement of revenues and expenses with the SOFA and calling the final result of this statement (Total change in net assets). Where revenues should be classified into three main categories according to the conditions and restrictions imposed on them by donors and presented as an increase in the net assets (unrestricted; temporarily restricted; permanently restricted):

- Unrestricted Revenues; Fund: Contributions or donations obtained by the NPO without any restrictions or conditions for special usage or purposes.
- Temporarily restricted revenues; Fund: Contributions or donations obtained by the CA with restricted temporary terms for its usage. And these restrictions associated with the fulfilment of certain conditions (Purpose; duration) and when the NPO met donor's conditions, the temporary restricted funds turn to be unrestricted funds and accordingly this leads to reduce the accumulated surplus of temporarily restricted and increase the accumulated surplus of unrestricted in the SOFP. [19]
- Permanently restricted revenues are contributions or donations obtained by the NPO with terms and permanent restrictions that cannot be cancelled / expired over time or purpose.

On the other side of this statement, the expenditures are reported as a reduction of net assets or unrestricted surplus, [15] and should be presented in a functional manner as follows:

- Program Expenses: represent the expenses incurred by the NPO to spend on operational activities.

- Support Services Expenses: include all costs and expenses except programs expenses such as: general and administrative expenses.
- Common Costs: If an expense related to more than one program, these expenses should allocate between these programs.

It should be noted that the US standard (117) allowed the existence of gains or losses in the SOCA. Which are resulting from special operations or events or other circumstances that NPO managers can't control it. These gains or losses disclosed in the SOCA According to the classification as unrestricted or temporarily restricted or permanently restricted gains or losses. The Standard referred in the paragraph (22) they will be presented in the statement of activities gains or losses realized from investments or other assets (Or obligations) as an increase or decrease in the net unrestricted assets unless their usage is restricted permanently or temporary by donors. For example, the net invested assets' gains disclosed as an increase in the net unrestricted assets unless its use is restricted for a particular purpose as this presentation lead to the provision of information to enable more appropriate measurement for the NPO performance where gains and losses should disclose on the basis of the total value not net value. But the NPO may present gains and losses in the SOCA on the basis of net value if there were a result of Exceptionally Transactions or events or circumstances largely outside the NPO managers' control.

5.1.3. *The Statement of social activity:*

This statement discloses the social costs and benefits of the NPO as a statement of social income during the financial period in addition to the consequences of this activity from surplus or deficit at the end of the financial year.

5.1.4. *The Statement of economic activity:*

This statement discloses the economic costs and benefits of the NPO as a statement of economic income during the financial period, and the consequences of this activity from the profit or loss at the end of the financial year. [5,9,17]

From the above, the researcher believes that to increase the financial management disclosure's quality in the NPOs, it's necessary to prepare an Analytical financial statement to disclose the nature of the social activities as an essential activity of the CA and another analytical statement to disclose the nature of the economic activities carried out by these NPOs as a secondary activity through the preparation of two additional statements, the first one is for the social activity and the second one is for the economic activity.

5.1.5. *The Statement of Cash Flows:*

The SOCFs is considered one of the basic financial statements provided by both the Egyptian financial management standard (No.1) and International Financial Management Standard (IAS1). And this statement should be prepared in accordance with the requirements of the international standard (IFRS7). Where this standard requires the classification of the SOCFs in four main components: (Operating activities; Investing activities; Finance activities; Cash and cash equivalents) But this statement is not considered within the main financial statements in law no. (84) Of 2002. While at the international level, [23] confirmed that SOCF is the most important statement from the stakeholder's perspective. And [18] believed that it's the optimum method to control and keep track of the funds within the organization.

Where the primary purpose of adding the SOCFs to the basic financial statements of the NPOs - From the researcher perspective - is providing more information about the cash receipts and payments from hand and the degree of NPO's financial flexibility during the financial period from the other hand which contribute to improve the ability to compare between the financial reports because it ignores the effects of using different financial management treatments for the same reporting process as this statement based on the cash basis, and this statement aims to:

- Measuring the NPOs' cash receipts during periods of the fiscal year.
- The movement of the cash inflows and outflows in the NPO to serve the financial control purposes.
- Measuring the return on long-term investments.
- Providing a complete image of the financial flows in the CA and expressing them with full transparency in terms of the values and dates.
- Providing additional information to the financial statements' users about the NPO's liquidity and ability to generate cash and cash flow timing in order to adapt to changes in circumstances and opportunities.

At the national standards level, CA can rely on the Egyptian Financial Management Standard No. (4) In the preparation of the SOCFs: [2]

- Using the direct method in the preparation of the SOCFs from operating activities
- Classifying the cash inflows and outflows in accordance with their restrictions, and clarifying whether there are any permanently or Temporary restrictions.
- Classifying the Cash receipts from donors to achieve the long-term objectives as cash flows from financing activities.
- The concept of cash or its equivalent is unrestricted or restricted Fund-resources for ongoing purposes only. Therefore, the restricted fund-resources for fixed assets purposes aren't included in the scope of this statement.

5.1.6. *The Notes:*

The most important part of the annual report is the narrative section, which explains what the NPO has actually done during the year. Recently, significant changes have occurred in the financial report's content on the global level especially which associated with the increasing importance of the descriptive report and the notes became have a major importance in the financial report structure (as shown in the international experience). Over the years, narrative reporting has received considerable attention from the academic research in FPOs but much less attention has been given to narrative reporting by NPOs [2] In this sense, several studies have confirmed the importance of the descriptive disclosure development as one of the alternatives to solve and overcome the financial statements deficit in demonstrating the essence of Non-profit activities and operations in (Monetary/Quantitative) value.

Where [9] pointed out that the donor's interest with the descriptive and non-financial disclosure is more than the interest with the financial statement's information, and [5] referred to the importance of including descriptive information in the financial reports, as [7] considered the notes are the most important part in the financial report.

Therefore, at the national level and in the light of the current variables of the Egyptian NPOs' environment, it was necessary to expand in the Notes disclosures and to be more detailed to provide useful information to stakeholders about the financial statement's elements. So notes must cover the following areas:

5.1.6.1. *The financial management policies disclosure:*

The financial management policies disclosure includes information and explanations for the elements in the following financial statements' core:

- A. Summary of significant financial management policies applied: The Measurement bases that used in preparing the financial statements.
- B. Personal Judgment used in adopting financial management policies which led to a significant influence on the financial statements elements.

5.1.6.2. *Sources of estimation uncertainty:*

The NPO shall disclose information about the assumptions it takes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying out amount of assets and liabilities within the next year.

5.1.6.3. *The contingent liabilities:*

These obligations relate to specific circumstances such as: Lawsuits or contract risk which the NPO engaged in. and these obligations differ from the obligations in the financial statements' core. In addition, these obligations are accompanied by uncertainty in terms of value or time. Therefore, the notes were considered the best method to disclose it.

5.1.6.4. *Complementary Notes associated with the SOFP:*

- It is necessary to disclose the restrictions and conditions imposed on the NPO's assets whether they are use restrictions, time restrictions or both of them.
- Restriction cancellation from the NPO's assets, as a result of meeting the conditions and terms or the time is over.
- Financial management policies are associated with asset recognition, measurement and depreciation.
- The existence of a substantial deficit in any items of the net assets, and the circumstances that led to the existence

of this deficit and the details about the NPO's decision to deal with these cases.

- The analysis of the main activities and services that enable stakeholders to verify the NPO's performance.

5.1.6.5. *Other disclosures:*

The NPO shall disclose any data or information that did not appear in the core of the financial statements, but their publication is important to provide a Faithful representation in the financial reports. Such as: legal and governmental requirements that are committed by the NPO where the financial report can include additional tables or appendixes.

5.1.7. *The Board of directors' report:*

The Board of Directors' Report is considered the core of the annual financial report in CA. because it gives stakeholders an overview of the NPO during the financial period of the Financial Report. From the viewpoint of [8] the Board of Directors' report has more influence on the stakeholders (donors) from traditional financial statements due to the descriptive ability for this report to show the real performance of the organization. Where, [12] considered the Board of directors' report is the most efficient and effective tool to stakeholders and this report consists of:

- NPO's Strategy, vision and objectives.
- NPO's Administrative structure.
- Programs and activities carried out by the NPO during the financial period of the financial report.
- Financial review of the core events and activities.
- The review of laws, regulations and standards used in the financial report's preparation.
- NPO's achievements in the current year compared to the previous year.

5.2. *Additional Financial Reports:*

From the historical perspective, the financial statements were designed for the stakeholders (shareholders) of FPOs to measure profits and losses, this model has been used by the NPS for many years, but the social objectives of this sector prompted the development of additional reporting statements that go beyond profits and losses.

The CA should prepare additional statements to meet the stakeholders' requirements According to the stakeholder theory to achieve the most benefits from the financial report. Whereas the US Standard No. (117) allows the NPOs to prepare additional financial statements in the case of the organization's desire, but this standard did not specify these statements. So, the researcher suggests these statements as follows:

5.2.1. *The Statement of financial and social added-value:*

In this statement the researcher concerned with the impacts of the NPO, what economic, social and environmental value added is created by the NPO through its activities? Value added is a financial management concept that measures the wealth created by an NPO. Instead, the value-added statement reports the wealth created for a wider group of stakeholders, including employees, Beneficiaries and the NPO itself. [15]

However, there are two shortcomings to the traditional calculation of added-value, for NPOs, first, by relying only on the financial data, an important component of the organization labor is missing – that of volunteers, second traditional added-value does not take into consideration non-monetized social and environmental impacts.

The use of the statement of added value was started in 1970 in the United Kingdom; where this statement is developed as per the social return on investment model, In addition to the information from the traditional financial statements. It combines the value-added from the financial resources that have been obtained from traditional financial statements as well as the added value of social inflows resources (non-cash). So, this statement is considered a real contribution to achieving the integration between financial management and social financial management. In this sense, the value-added can be defined as: "Measure of wealth or the value generated by the entity, through combining Value of materials, products and services from its operations, in addition to the capital", And the statement of value-added is divided into four main columns:

- Financial sources: financial information that has been obtained from the financial statements.
- Social Sources: non-financial contributions which accountants work to estimate market-values for it.

- The total financial and social resources for this year.
- The total financial and social resources for the previous year,
- The researcher adds the fourth column to give stakeholders the ability to compare and understand the current situation and the situation in the previous year.

So, this statement considers the integrated economic and social value added by the NPO, and the addition of this statement to the NPO's financial report answering the following main question: what difference is the NPO making economically and socially in its society?

5.2.2. *The Statement of functional expenses:*

In financial management, there are two types of expense classification, the first one is Functional Classification. This classification is a method for assembling expenses in accordance with the purposes or programs. According to this classification, the expenses may be associated with services programs or supported activities. So, through expenses' Presentation on the basis of functional, Stakeholders can identify the efforts made by the NPO to provide services. So, it includes the cost of services and how the NPO has used its financial resources. On the other side, the second one is natural classification, this classification is a method for assembling expenses according to their nature or type, regardless of activities or its associated program, according to this classification the expenses include (depreciation; salaries; etc.).

Regarding the increasing interest in financial management practices in NPOs. This interest focuses on how the NPO spends the funds (especially donations) to determine the degree of its financial efficiency [6] The Functional classification of the expenditure has become a major focus in measuring NPO's performance (Albaz & Albaz, 2019) . So the statement of functional expenses as one of the additional financial statements in the CA's financial report is gaining its importance through the NPO's ability to link between the activities and programs with their direct costs. And demonstrate this relationship to stakeholders and thus prove the operational and financial efficiency. In addition, this statement can be prepared through the division of all expenses according to the functional classification (Vertically) and present all activities (horizontally), and allocates cost, according to the Activity beneficiary, as this statement aims to:

- Provide detailed information to stakeholders about the expenditures.
- Link between the expenses and the activities.
- Improve the informative content (function) of the Financial Reports. From the standpoint of Management's responsibility for the proper allocation of the expenses on activities.
- Prove the operational and financial efficiency in front of stakeholders.

6. Conclusion:

Financial Management emerged as a bookkeeping art in the fourteenth century. Then it has been turned into knowledge based on scientific principles and logical assumptions in the late 18th century. Then the need to develop a general theory for financial management emerged in the early twentieth century. In that sense, the financial management thought - academic and applied - cared about the need to set a general financial management theory consists of a set of financial management concepts, principles and assumptions that can regulate the professional financial management performance. In order to adjust and control the comprehensive financial management function in terms of the financial management recognition, measurement, presentation and disclosure of the applied performance in businesses and services organizations.

In this paper, researcher provided a proposed framework to the financial statements and reporting in NPOs Sector, consisted of objectives, financial management information quality's characteristics, constraints and new statement's structure, First, Fundamental financial statements and reports (Statement of Financial Position, Statement of Comprehensive Activity, Statement of social activity, Statement of economic activity, Statement of Cash Flows and Notes). Second, Additional financial statements and reports (Statement of financial and social added-value and Statement of functional expenses).

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Conflict of interest

The authors declare that there is no conflict regarding the publication of this paper.

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